TRI COUNTY FINANCIAL CORP /MD/
Form 10-Q
May 11, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to ______

Commission File Number 0-18279

Tri-County Financial Corporation

(Exact name of registrant as specified in its charter)

Maryland (State of other jurisdiction of incorporation or organization)	52-1652138 (I.R.S. Employer Identification No.)
3035 Leonardtown Road, Waldorf, Maryland (Address of principal executive offices)	20601 (Zip Code)

(301) 645-5601

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x   No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x   No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ¨	Accelerated Filer ¨
Non-accelerated Filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨   No x

As of April 30, 2012, the registrant had 3,041,582 shares of common stock outstanding.

TRI-COUNTY FINANCIAL CORPORATION

FORM 10-Q

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PART I FINANCIAL STATEMENTS

ITEM I. FINANCIAL STATEMENTS

TRI-COUNTY FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS MARCH 31, 2012 AND DECEMBER 31, 2011

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and due from banks	$10,830,866	$13,074,091
Federal funds sold	370,000	5,040,000
Interest-bearing deposits with banks	563,011	1,004,098
Securities available for sale (AFS), at fair value	34,147,730	41,827,612
Securities held to maturity (HTM), at amortized cost	140,636,265	153,516,839
Federal Home Loan Bank and Federal Reserve Bank stock - at cost	5,988,900	5,587,000
Loans receivable - net of allowance for loan losses of $7,915,798 and $7,655,041	722,942,471	710,088,775
Premises and equipment, net	17,963,404	16,440,902
Foreclosed real estate	4,467,834	5,028,513
Accrued interest receivable	2,996,328	3,027,784
Investment in bank owned life insurance	18,257,291	18,098,085
Other assets	9,427,404	10,746,024
Total Assets	$968,591,504	$983,479,723
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing deposits	$78,817,029	$81,097,622
Interest-bearing deposits	726,872,082	746,155,579
Total deposits	805,689,111	827,253,201
Short-term borrowings	7,000,000	-
Long-term debt	60,564,433	60,576,595
Guaranteed preferred beneficial interest in junior subordinated debentures	12,000,000	12,000,000
Accrued expenses and other liabilities	6,643,551	8,195,829
Total Liabilities	891,897,095	908,025,625
Stockholders' Equity		
Preferred Stock, Senior Non-Cumulative Perpetual, Series C - par value $1,000; authorized 20,000; issued 20,000	20,000,000	20,000,000
Common stock - par value $.01; authorized - 15,000,000 shares; Issued 3,045,949 and 3,026,557 shares, respectively	30,459	30,266
Additional paid in capital	17,635,165	17,367,403
Retained earnings	39,762,446	38,712,194

Accumulated other comprehensive gain	247,693	289,599
Unearned ESOP shares	(981,354)	(945,364)
Total Stockholders’ Equity	76,694,409	75,454,098
Total Liabilities and Stockholders' Equity	$968,591,504	$983,479,723

See notes to consolidated financial statements

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TRI-COUNTY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2012 AND 2011

	Three Months Ended March 31,	
	2012	2011
Interest and Dividend Income		
Loans, including fees	$9,224,883	$8,860,571
Taxable interest and dividends on investment securities	881,817	969,837
Interest on deposits with banks	1,684	1,382
Total Interest and Dividend Income	10,108,384	9,831,790
Interest Expenses		
Deposits	2,412,342	2,608,520
Short-term borrowings	15,841	14,433
Long-term debt	595,502	599,364
Total Interest Expenses	3,023,685	3,222,317
Net Interest Income	7,084,699	6,609,473
Provision for loan losses	341,074	2,005,830
Net Interest Income After Provision For Loan Losses	6,743,625	4,603,643
Noninterest Income		
Loan appraisal, credit and miscellaneous charges	181,314	158,098
Net losses on sale of foreclosed real estate	(96,917)	-
Income from bank owned life insurance	159,206	159,695
Service charges	536,512	426,959
Gain on sale of loans held for sale	65,975	25,575
Total Noninterest Income	846,090	770,327
Noninterest Expenses		
Salary and employee benefits	3,319,866	2,751,474
Occupancy expense	437,472	417,391
Advertising	80,008	118,696
Data processing expense	368,440	282,753
Professional fees	225,209	217,088
Depreciation of furniture, fixtures, and equipment	134,925	99,529
Telephone communications	43,774	42,024
Office supplies	62,062	38,791
FDIC insurance	443,615	326,319
Valuation allowance on foreclosed real estate	300,000	315,883
Other	482,048	501,276
Total Noninterest Expenses	5,897,419	5,111,224

Income before income taxes	1,692,296	262,746
Income tax expense	587,043	21,248
Net Income	$1,105,253	$241,498
Preferred stock dividends	50,000	211,733
Net Income Available to Common Shareholders	$1,055,253	$29,765
Net Income	$1,105,253	$241,498
Other comprehensive income net of tax:		
Net unrealized holding losses arising during period	(41,906)	(97,450)
Comprehensive income	$1,063,347	$144,048
Earnings Per Common Share		
Basic	$0.35	$0.01
Diluted	0.35	0.01
Cash dividends declared per common share	$0.40	$0.40

See notes to consolidated financial statements

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TRI-COUNTY FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2012 AND 2011

	Three Months Ended March 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$1,105,253	$241,498
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Provision for loan losses	341,074	2,005,830
Depreciation and amortization	249,149	214,957
Loans originated for resale	(1,718,600)	(1,476,600)
Proceeds from sale of loans originated for sale	1,774,555	1,491,984
Gain on sale of loans held for sale	(65,975)	(25,575)
Net loss on the sale of foreclosed real estate	96,917	-
Net amortization of premium/discount on investment securities	116,842	45,142
Increase in foreclosed real estate valuation allowance	300,000	315,883
Increase in cash surrender of bank owned life insurance	(159,206)	(159,695)
Deferred income tax benefit	(333,582)	(37,136)
Decrease (Increase) in accrued interest receivable	31,456	(206,567)
Stock based compensation	201,060	241,036
(Decrease) Increase in deferred loan fees	(33,169)	75,657
Decrease in accounts payable, accrued expenses, other liabilities	(1,552,278)	(1,151,934)
Decrease (Increase) in other assets	1,673,791	(1,738,166)
Net cash provided (used) by operating activities	2,027,287	(163,686)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities available for sale	(27,457)	(30,943)
Proceeds from sale, redemption or principal payments of investment securities available for sale	7,641,683	4,055,862
Purchase of investment securities held to maturity	(849,785)	(99,951)
Proceeds from maturities or principal payments of investment securities held to maturity	13,615,678	13,367,862
Net decrease of FHLB and Federal Reserve stock	(401,900)	(38,400)
Loans originated or acquired	(58,330,528)	(47,637,459)
Principal collected on loans	45,043,677	51,751,940
Purchase of premises and equipment	(1,771,651)	(229,705)
Proceeds from sale of foreclosed real estate	299,032	-

Net cash provided by investing activities	5,218,749	21,139,206

TRI-COUNTY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2012 AND 2011

	Three Months Ended March 31, 2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposits	$(21,564,090)	$(2,574,582)
Payments of long-term borrowings	(12,162)	(10,011,685)
Net increase (decrease) in short term borrowings	7,000,000	(363,332)
Exercise of stock options	66,895	49,560
Dividends paid	(55,001)	(211,733)
Net change in unearned ESOP shares	(35,990)	(32,742)
Redemption of common stock	-	(141,863)
Net cash used in financing activities	(14,600,348)	(13,286,377)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$(7,354,312)	$7,689,143
CASH AND CASH EQUIVALENTS - JANUARY 1	19,118,189	9,823,436
CASH AND CASH EQUIVALENTS - MARCH 31	$11,763,877	$17,512,579
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the three months for:		
Interest	$2,941,360	$3,329,167
Income taxes	$-	$-
Transfer from loans to foreclosed real estate	$135,270	$1,156,723
Issuance of common stock for payment of compensation	$201,060	$241,036

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2012 AND 2011

1. BASIS OF PRESENTATION

General - The consolidated financial statements of Tri-County Financial Corporation (the "Company") and its wholly owned subsidiary, Community Bank of Tri-County (the "Bank"), and the Bank's wholly owned subsidiary, Community Mortgage Corporation of Tri-County, included herein are unaudited. However, they reflect all adjustments consisting only of normal recurring accruals that, in the opinion of management, are necessary to present fairly the Company's financial condition, results of operations, and cash flows for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Company believes that the disclosures are adequate to make the information presented not misleading. The balances as of December 31, 2011 have been derived from audited financial statements. There have been no significant changes to the Company's accounting policies as disclosed in the 2011 Annual Report. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results of operations to be expected for the remainder of the year or any other period. Certain previously reported amounts have been restated to conform to the 2012 presentation.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's 2011 Annual Report.

2. NATURE OF BUSINESS

The Company provides a variety of financial services to individuals and businesses through its offices in Southern Maryland and King George, Virginia. Its primary deposit products are demand, savings and time deposits, and its primary lending products are commercial and residential mortgage loans, commercial loans, construction and land development loans, home equity and second mortgages and commercial equipment loans.

3. FAIR VALUE MEASUREMENTS

The Company adopted FASB ASC Topic 820, "Fair Value Measurements" and FASB ASC Topic 825, "The Fair Value Option for Financial Assets and Financial Liabilities", which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. FASB ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available for sale investment securities) or on a nonrecurring basis (for example, impaired loans).

FASB ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis such as loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Under FASB ASC Topic 820, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These hierarchy levels are:

Level 1 inputs - Unadjusted quoted process in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company's monthly or quarterly valuation process.

There were no transfers between levels of the fair value hierarchy and the Company had no Level 3 fair value assets or liabilities for the three months ended March 31, 2012 and the year ended December 31, 2011, respectively. Following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Securities Available for Sale

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities ("GSEs"), municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Loans Receivable

The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Management estimates the fair value of impaired loans using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2011, substantially all of the impaired loans were evaluated based upon the fair value of the collateral. In accordance with FASB ASC 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

Foreclosed Real Estate

Foreclosed real estate is adjusted for fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed real estate is carried at the lower of carrying value and fair value. Fair value is based upon independent market prices, appraised value of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset at nonrecurring Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets as of March 31, 2012 and December 31, 2011 measured at fair value on a recurring basis.

	March 31, 2012			
Description of Asset	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
Asset-backed securities issued by GSEs				
CMOs	$27,591,074	$ -	$ 27,591,074	$ -
MBS	2,419,025	-	2,419,025	-
Corporate equity securities	37,383	-	37,383	-
Bond mutual funds	4,100,248	-	4,100,248	-
Total available for sale securities	$34,147,730	$ -	$ 34,147,730	$ -

	December 31, 2011			
Description of Asset	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
Asset-backed securities issued by GSEs				
CMOs	$35,062,072	$ -	$ 35,062,072	$ -
MBS	2,648,043	-	2,648,043	-
Corporate equity securities	37,262	-	37,262	-
Bond mutual funds	4,080,235	-	4,080,235	-
Total available for sale securities	$41,827,612	$ -	$ 41,827,612	$ -

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company may be required from time to time to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. GAAP. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis as of March 31, 2012 and December 31, 2011 are included in the table below.

	March 31, 2012			
Description of Asset	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loans with impairment				
Commercial real estate	$5,958,423	$ -	$ 5,958,423	$ -
Construction and land development	1,313,550	-	1,313,550	-
Home equity and second mtg.	54,318	-	54,318	-
Residential first mortgage	504,778	-	504,778	-
Commercial loans	1,430,939	-	1,430,939	-
Total loans with impairment	$9,262,008	$ -	$ 9,262,008	$ -
Foreclosed Real Estate	$4,467,834	$ -	$ 4,467,834	$ -

	December 31, 2011			
Description of Asset	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loans with impairment				
Commercial real estate	$1,170,467	$ -	$ 1,170,467	$ -
Construction and land development	1,313,550	-	1,313,550	-
Residential first mortgage	505,206	-	505,206	-
Commercial loans	5,110,241	-	5,110,241	-
Total loans with impairment	$8,099,464	$ -	$ 8,099,464	$ -
Foreclosed Real Estate	$5,028,513	$ -	$ 5,028,513	$ -

Loans with impairment have unpaid principal balances of $11,394,904 and $10,096,399 at March 31, 2012 and December 31, 2011, respectively, and include impaired loans with a specific allowance.

4. INCOME TAXES

The Company files a consolidated federal income tax return with its subsidiaries. Deferred tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. It is the Company’s policy to recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense.

5. EARNINGS PER COMMON SHARE

Basic earnings per common share are computed by dividing net income less dividends on preferred shares, by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net income less dividends on preferred shares, by the weighted average number of common shares outstanding during the period, including any potential dilutive common shares outstanding, such as options and warrants. As of March 31, 2012 and 2011, there were 187,367 and 102,524 shares, respectively, excluded from the diluted net income per share computation because the exercise price of the stock options were greater than the market price, and thus were anti-dilutive. Basic and diluted earnings per share have been computed based on weighted-average common and common equivalent shares outstanding as follows:

	Three Months Ended March 31,	
	2012	2011
Net Income	$1,105,253	$241,498
Less: dividends payable on preferred stock	(50,000)	(211,733)
Net income available to common shareholders	$1,055,253	$29,764
Average number of common shares outstanding	3,037,380	3,009,516
Effect of dilutive options	8,939	44,361
Average number of shares used to calculate diluted earnings per share	3,046,319	3,053,877

6. STOCK-BASED COMPENSATION

The Company has stock option and incentive arrangements to attract and retain key personnel. In May 2005, the 2005 Equity Compensation Plan (the “Plan”) was approved by the shareholders, which authorizes the issuance of restricted stock, stock appreciation rights, stock units and stock options to the Board of Directors and key employees. Compensation expense for service based awards is recognized over the vesting period. Performance based awards are recognized based on a vesting, if applicable, and the probability of achieving the goals.

Stock-based compensation expense totaled $65,522 and $50,888 for the three months ended March 31, 2012 and 2011, respectively, which consisted of grants of restricted stock and restricted stock units. Stock-based compensation included director compensation for stock granted in lieu of cash compensation. All outstanding options were fully vested at December 31, 2011. The Company has not granted any stock options since 2007.

The fair value of the Company’s employee stock options is estimated on the date of grant using the Black-Scholes option pricing model. The Company estimates expected market price volatility and expected term of the options based on historical data and other factors.

The exercise price for options is set at the discretion of the committee administering the Plan, but is not less than the market value of the shares as of the date of grant. An option's maximum term is 10 years and the options vest at the discretion of the committee. The following tables below summarize outstanding and exercisable options at March 31, 2012 and December 31, 2011.

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Contractual Life Remaining In Years
Outstanding at January 1, 2012	264,156	$ 17.90	$ 175,911	
Granted at fair value	-	-		
Exercised	(5,756)	12.64	9,338	
Expired	-			
Forfeited	(2,044)	19.73		
Outstanding at March 31, 2012	256,356	$ 18.00	$ 395,637	1.8
Exercisable at March 31, 2012	256,356	$ 18.00	$ 395,637	1.8

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	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Contractual Life Remaining In Years
Outstanding at January 1, 2011	299,237	$ 16.86	$ 524,392	
Granted at fair value	-	-		
Exercised	(33,163)	8.75	286,061	
Expired	(338)	8.44		
Forfeited	(1,580)	15.00		
Outstanding at December 31, 2011	264,156	$ 17.90	$ 175,911	1.7
Exercisable at December 31, 2011	264,156	$ 17.90	$ 175,911	1.7

Options outstanding are all currently exercisable and are summarized as follows:

Number Outstanding March 31, 2012	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
14,891	1 years	$ 11.56
54,098	2 years	12.95
85,817	3 years	15.89
80,138	4 years	22.29
21,411	6 years	27.70
256,356		18.00

The aggregate intrinsic value of outstanding stock options and exercisable stock options was $395,637 and $175,911 at March 31, 2012 and December 31, 2011, respectively. Aggregate intrinsic value represents the difference between the Company’s closing stock price on the last trading day of the period, which was $17.00 and $15.00 at March 31, 2012 and December 31, 2011, respectively, and the exercise price multiplied by the number of options outstanding.

The Company has outstanding restricted stock and stock units granted in accordance with the Plan. The following tables below summarize the unvested restricted stock awards and units outstanding at March 31, 2012 and December 31, 2011.

Restricted Stock	Restricted Stock Units

	Number of Shares	Weighted Average Grant Date Fair Value	Number of Units	Fair Value
Nonvested at December 31, 2011	8,113	$ 16.47	6,845	$ 15.00
Granted	12,329	14.25	2,105	17.00
Vested	(4,110)	14.25	(3,739)	14.80
Nonvested at March 31, 2012	16,332	$ 15.35	5,211	$ 17.00

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	Restricted Stock		Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Units	Fair Value
Nonvested at January 1, 2011	2,720	$ 11.90	3,739	$ 15.00
Granted	12,934	16.49	3,106	15.00
Vested	(7,541)	14.86	-	-
Nonvested at December 31, 2011	8,113	$ 16.47	6,845	$ 15.00

7. GUARANTEED PREFERRED BENEFICIAL INTEREST IN JUNIOR SUBORDINATED DEBENTURES

On June 15, 2005, Tri-County Capital Trust II (“Capital Trust II”), a Delaware business trust formed, funded and wholly owned by the Company, issued $5,000,000 of variable-rate capital securities in a private pooled transaction. The variable rate is based on the 90-day LIBOR rate plus 1.70%. The Trust used the proceeds from this issuance, along with the $155,000 for Capital Trust II’s common securities, to purchase $5,155,000 of the Company’s junior subordinated debentures. The interest rate on the debentures and the trust preferred securities is variable and adjusts quarterly. The Company has, through various contractual arrangements, fully and unconditionally guaranteed all of Capital Trust II’s obligations with respect to the capital securities. These capital securities qualify as Tier I capital and are presented in the Consolidated Balance Sheets as “Guaranteed Preferred Beneficial Interests in Junior Subordinated Debentures.” Both the capital securities of Capital Trust II and the junior subordinated debentures are scheduled to mature on June 15, 2035, unless called by the Company.

On July 22, 2004, Tri-County Capital Trust I (“Capital Trust I”), a Delaware business trust formed, funded and wholly owned by the Company, issued $7,000,000 of variable-rate capital securities in a private pooled transaction. The variable rate is based on the 90-day LIBOR rate plus 2.60%. The Trust used the proceeds from this issuance, along with the Company’s $217,000 capital contribution for Capital Trust I’s common securities, to purchase $7,217,000 of the Company’s junior subordinated debentures. The interest rate on the debentures and the trust preferred securities is variable and adjusts quarterly. The Company has, through various contractual arrangements, fully and unconditionally guaranteed all of Capital Trust I’s obligations with respect to the capital securities. These debentures qualify as Tier I capital and are presented in the Consolidated Balance Sheets as “Guaranteed Preferred Beneficial Interests in Junior Subordinated Debentures.” Both the capital securities of Capital Trust I and the junior subordinated debentures are scheduled to mature on July 22, 2034, unless called by the Company.

8. PREFERRED STOCK

Small Business Lending Fund Preferred Stock

On September 22, 2011, the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with the Secretary of the Treasury (the “Secretary”), pursuant to which the Company issued 20,000 shares of the Company’s

Senior Non-Cumulative Perpetual Preferred Stock, Series C (the "Series C Preferred Stock"), having a liquidation amount per share equal to $1,000, for a total purchase price of $20,000,000. The Purchase Agreement was entered into, and the Series C Preferred Stock was issued, as authorized by the Small Business Lending Fund program.

The Series C Preferred Stock is entitled to receive non-cumulative dividends, payable quarterly. The dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first 10 quarters during which the Series C Preferred Stock is outstanding, based upon changes in the level of "Qualified Small Business Lending" or "QSBL" (as defined in the Purchase Agreement) by the Bank. Based upon the increase in the Bank's level of QSBL over the baseline level calculated under the terms of the Purchase Agreement, the dividend rate for the initial dividend period has been set at one percent (1%). For the second through ninth calendar quarters, the dividend rate may be adjusted to between one percent (1%) and five percent (5%) per annum, to reflect the amount of change in the Bank's level of QSBL. If the level of the Bank's qualified small business loans declines so that the percentage increase in QSBL as compared to the baseline level is less than 10%, then the dividend rate payable on the Series C Preferred Stock would increase. For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at between one percent (1%) and seven percent (7%) based upon the increase in QSBL as compared to the baseline. After four and one half years from issuance, the dividend rate will increase to nine percent (9%). In addition, beginning on January 1, 2014, and on all Series C Preferred Stock dividend payment dates thereafter ending on April 1, 2016, the Company will be required to pay to the Secretary, on each share of Series C Preferred Stock, but only out of assets legally available, a fee equal to 0.5% of the liquidation amount per share of Series C Preferred Stock.

The Series C Preferred Stock is non-voting, except in limited circumstances. If the Company misses five dividend payments, whether or not consecutive, the holder of the Series C Preferred Stock will have the right, but not the obligation, to appoint a representative as an observer on the Company's Board of Directors. The Series C Preferred Stock may be redeemed at any time at the Company's option, at a redemption price of 100% of the liquidation amount plus accrued but unpaid dividends to the date of redemption for the current period, subject to the approval of our federal banking regulator. The Company is permitted to repay its SBLF funding in increments of 25% or $5.0 million, subject to the approval of our federal banking regulator.

The Series C Preferred Stock was issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. The Company has agreed to register the Series C Preferred Stock under certain circumstances set forth in Annex E to the Purchase Agreement. The Series C Preferred Stock is not subject to any contractual restrictions on transfer.

Redemption of Series A and B Preferred Stock - Troubled Asset Relief Program's (TARP) Capital Purchase Program

On September 22, 2011, the Company entered into a letter agreement (the "Repurchase Letter") with the United States Department of the Treasury (the "Treasury"), in which the Company agreed to redeem, out of the proceeds of the issuance of the Series C Preferred Stock, all 15,540 outstanding shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, liquidation amount $1,000 per share (the "Series A Preferred Stock"), for a redemption price of $15,619,858, including accrued but unpaid dividends to the date of redemption and all 777 outstanding shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series B, liquidation amount $1,000 per share (the "Series B Preferred Stock"), for a redemption price of $784,187, including accrued but unpaid dividends to the date of redemption.

The Company issued Series A Preferred Stock and Series B Preferred Stock on December 19, 2008. It was outstanding until redemption of 100% of all Series A Preferred Stock and Series B Preferred Stock on September 22, 2011. The annual dividend rates paid for Series A Preferred Stock and Series B Preferred Stock were 5% and 9%, respectively.

9.SECURITIES

	March 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale (AFS)				
Asset-backed securities issued by GSEs				
Residential MBS	$2,198,032	$ 220,993	$ -	$2,419,025
Residentail CMOs	27,422,010	206,783	37,719	27,591,074
Corporate equity securities	37,310	353	280	37,383
Bond mutual funds	3,867,930	232,318	-	4,100,248
Total securities available for sale	$33,525,282	$ 660,447	$ 37,999	$34,147,730
Securities held to maturity (HTM)				
Asset-backed securities issued by GSEs				
Residential MBS	$34,530,026	$ 1,041,114	$ 3,048	$35,568,092
Residential CMOs	95,897,681	753,329	146,151	96,504,859
Asset-backed securities issued by Others:				-
Residential MBS	-	-	-	-
Residential CMOs	9,358,693	80,910	1,018,025	8,421,578
Total debt securities held to maturity	139,786,400	1,875,353	1,167,224	140,494,529
U.S. government obligations	849,865	4	-	849,869
Other investments	-	-	-	-
Total securities held to maturity	$140,636,265	$ 1,875,357	$ 1,167,224	$141,344,398

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale (AFS)				
Asset-backed securities issued by GSEs				
Residential MBS	$2,412,959	$ 235,084	$ -	$2,648,043
Residentail CMOs	34,848,180	248,508	34,616	35,062,072
Corporate equity securities	37,310	241	289	37,262
Bond mutual funds	3,840,473	239,762	-	4,080,235
Total securities available for sale	$41,138,922	$ 723,595	$ 34,905	$41,827,612
Securities held to maturity (HTM)				
Asset-backed securities issued by GSEs				
Residential MBS	$35,929,199	$ 854,497	$ 10,960	$36,772,736
Residential CMOs	106,998,467	1,104,141	27,411	108,075,197
Asset-backed securities issued by Others				-
Residential CMOs	9,839,222	15,364	1,421,477	8,433,109
Total debt securities held to maturity	152,766,888	1,974,002	1,459,848	153,281,042
U.S. government obligations	749,951	-	-	749,951

Total securities held to maturity	$153,516,839	$ 1,974,002	$ 1,459,848	$154,030,993

At March 31, 2012, certain asset-backed securities with a carrying value of $53.3 million were pledged to secure certain deposits. At March 31, 2012, asset-backed securities with a carrying value of $12.5 million were pledged as collateral for advances from the Federal Home Loan Bank of Atlanta.

At March 31, 2012 and December 31, 2011, the AFS and HTM asset-backed securities investment portfolios were $169,796,499, or 97% and $190,477,003, or 98%, respectively, of the Company’s total AFS and HTM portfolios.

At March 31, 2012, 95% of the asset-backed securities portfolio was rated AAA by Standard & Poor’s or equivalent credit rating from other major rating agency. AFS asset-backed securities issued by GSEs had an average life of 2.22 years and average duration of 2.14 years and are guaranteed by their issuer as to credit risk. HTM asset-backed securities issued by GSEs had an average life of 3.28 years and average duration of 3.04 years and are guaranteed by their issuer as to credit risk.

At December 31, 2011, 96% of the asset-backed securities portfolio was rated AAA by Standard & Poor’s or equivalent credit rating from other major rating agency. AFS asset-backed securities issued by GSEs had an average life of 1.65 years and average duration of 1.61 years and are guaranteed by their issuer as to credit risk. HTM asset-backed securities issued by GSEs had an average life of 2.72 years and average duration of 2.57 years and are guaranteed by their issuer as to credit risk.

During the three months ended March 31, 2012 and for the year ended December 31, 2011, there were no sales of available for sale securities or held to maturity securities.

We believe that the securities with unrealized losses will either recover in market value or be paid off as agreed. The Company intends to, and has the ability to, hold these securities to maturity. We believe that the losses are the result of general perceptions of safety and creditworthiness of the entire sector and a general disruption of orderly markets in the asset class. No charges related to other-than-temporary impairment were made during the three months ended March 31, 2012 and the year ended December 31, 2011. During the year ended December 31, 2009, the Company recorded a charge of $148,000 related to other-than-temporary impairment on a single CMO issue. At March 31, 2012, the CMO issue has a par value of $1,030,000, a market fair value of $704,000 and a carrying value of $635,000.

Management has the ability and intent to hold the securities with unrealized losses classified as held to maturity until they mature, at which time the Company will receive full value for the securities. Because our intention is not to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, management considers the unrealized losses in the held-to-maturity portfolio to be temporary, except for the single CMO issue noted above, for which an other-than-temporary charge was recorded in 2009 in the amount of $148,000.

AFS Securities

At March 31, 2012, the AFS investment portfolio had a fair value of $34,147,730 with unrealized losses from their amortized cost of $37,999 on asset-backed securities and corporate securities with a fair value of $10,661,653. All unrealized losses were for less than twelve months.

At December 31, 2011, the AFS investment portfolio had a fair value of $41,827,612 with unrealized losses from their amortized cost of $34,905 on asset-backed securities and corporate securities with a fair value of $18,170,977. All unrealized losses were for less than twelve months.

HTM Securities

Gross unrealized losses and estimated fair value by length of time that the individual HTM securities have been in a continuous unrealized loss position at March 31, 2012 are as follows:

March 31, 2012	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Losses
Asset-backed securities. issued by GSEs	$59,849,034	$127,556	$2,767,435	$21,643	$62,616,469	$149,199
Asset-backed securities issued by other	136,206	2,137	6,642,467	1,015,888	6,778,673	1,018,025
	$59,985,240	$129,693	$9,409,902	$1,037,531	$69,395,142	$1,167,224

At March 31, 2012, the HTM investment portfolio has an estimated fair value of $141,344,398, of which $69,395,142, or 49% of the securities, had some unrealized losses from their amortized cost. Of these securities, $62,616,469, or 90%, are mortgage-backed securities issued by GSEs and the remaining $6,778,673, or 10%, were asset-backed securities issued by others.

HTM securities issued by GSEs are guaranteed by the issuer. Total unrealized losses on the asset-backed securities issued by GSEs were $149,199, or 0.11%, of the amortized cost of $130,427,707. HTM asset-backed securities issued by GSEs with unrealized losses have an average life of 2.90 years and an average duration of 2.72 years. We believe that the securities will either recover in market value or be paid off as agreed. The Company intends to, and has the ability to, hold these securities to maturity.

HTM asset-backed securities issued by others are mortgage-backed securities. All of the securities have credit support tranches that absorb losses prior to the tranches which the Company owns. The Company reviews credit support positions on its securities regularly. Total unrealized losses on the asset-backed securities issued by others were $1,018,025, or 10.88%, of the amortized cost of $9,358,693. HTM asset-backed securities issued by others with unrealized losses have an average life of 2.70 years and an average duration of 2.03 years.

Gross unrealized losses and estimated fair value by length of time that the individual HTM securities have been in a continuous unrealized loss position at December 31, 2011 are as follows:

	Less Than 12 Months		More Than 12 Months		Total	
December 31, 2011	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Losses
Asset-backed securities issued by GSEs	$30,220,777	$ 33,796	$2,847,703	$4,575	$33,068,480	$38,371
Asset-backed securities issued by other	131,301	11,507	6,632,200	1,409,970	6,763,501	1,421,477
	$30,352,078	$ 45,303	$9,479,903	$1,414,545	$39,831,981	$1,459,848

At December 31, 2011, the HTM investment portfolio has an estimated fair value of $154,030,993, of which $39,831,981, or 26% of the securities, had some unrealized losses from their amortized cost. Of these securities, $33,068,480, or 83%, are mortgage-backed securities issued by GSEs and the remaining $6,763,501, or 17%, were asset-backed securities issued by others.

HTM securities issued by GSEs are guaranteed by the issuer. Total unrealized losses on the asset-backed securities issued by GSEs were $38,371, or 0.03%, of the amortized cost of $142,927,666. HTM asset-backed securities issued by GSEs with unrealized losses have an average life of 2.06 years and an average duration of 1.96 years. We believe that the securities will either recover in market value or be paid off as agreed. The Company intends to, and has the ability to, hold these securities to maturity.

HTM asset-backed securities issued by others are mortgage-backed securities. All of the securities have credit support tranches that absorb losses prior to the tranches which the Company owns. The Company reviews credit support positions on its securities regularly. Total unrealized losses on the asset-backed securities issued by others were $1,421,477, or 14.45%, of the amortized cost of $9,839,222. HTM asset-backed securities issued by others with unrealized losses have an average life of 2.35 years and an average duration of 1.61 years.

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Credit Quality of Asset-Backed Securities

The tables below present the Standard & Poor's or equivalent credit rating from other major rating agencies for AFS and HTM asset-backed securities issued by GSEs and others at March 31, 2012 and December 31, 2011 by carrying value. GSE asset-backed securities that were downgraded by Standard and Poor's were treated as AAA based on regulatory guidance.

March 31, 2012		December 31, 2011	
Credit Rating	Amount	Credit Rating	Amount
AAA	$160,726,235	AAA	$181,958,323
A+	138,225	A+	142,808
A	848,906	A	-
BBB	1,183,102	BBB	1,258,268
BBB-	1,032,175	BBB-	1,061,017
BB+	1,219,246	BB+	1,240,901
BB	291,921	BB	337,998
BB-	580,651	BB-	615,716
B+	212,697	B+	246,345
CCC+	3,563,341	CCC+	3,615,627
Total	$169,796,499	Total	$190,477,003

10. FORECLOSED REAL ESTATE (OREO)

Foreclosed assets are presented net of an allowance for losses. An analysis of the activity in foreclosed assets is as follows.

	Three Months Ended March 31,	
	2012	2011
Balance at beginning of year	$ 5,028,513	$ 10,469,302
Additions to underlying property	135,270	1,348,107
Disposals of underlying property	(395,949)	(462,146)
Valuation allowance	(300,000)	(315,883)
Balance at end of period	$ 4,467,834	$ 11,039,380

During the three months ended March 31, 2012, the Bank disposed of two OREO properties for proceeds of $299,032 and recognized net losses of $96,917.

Expenses applicable to foreclosed assets include the following.

	Three Months Ended March 31,	
	2012	2011
Valuation allowance	$ 300,000	$ 315,883
Operating expenses	(1,701)	143,868
	$ 298,299	$ 459,751

Operating expenses for the three months ended March 31, 2012 included $7,600 in deposits refunded on sold foreclosed real estate.

11. LOANS

Loans consist of the following:

	March 31, 2012	December 31, 2011
Commercial real estate	$ 387,062,534	$ 370,383,885
Residential first mortgages	171,910,733	164,543,309
Construction and land development	36,254,152	36,744,865
Home equity and second mortgage	23,455,588	24,138,324
Commercial loans	93,410,257	101,968,056
Consumer loans	960,745	1,000,983
Commercial equipment	18,567,449	19,760,753
	731,621,458	718,540,175
Less:		
Deferred loan fees	763,189	796,359
Allowance for loan loss	7,915,798	7,655,041
	8,678,987	8,451,400
	$ 722,942,471	$ 710,088,775

At March 31, 2012, the Bank’s allowance for loan losses totaled $7,915,798 or 1.08% of loan balances as compared to $7,655,041 or 1.07% of loan balances at December 31, 2011. Management’s determination of the adequacy of the allowance is based on a periodic evaluation of the portfolio with consideration given to the overall loss experience, current economic conditions, volume, growth and composition of the loan portfolio, financial condition of the borrowers and other relevant factors that, in management’s judgment, warrant recognition in providing an adequate allowance.

At December 31, 2011, gross loans included $2,356,196 from the sale of two foreclosed real estate properties that the Bank financed during 2011 that did not qualify for full accrual sales treatment under ASC Topic 360-20-40 “Property Plant and Equipment – Derecognition.” The Bank utilized the cost recovery method and deferred gain of $410,268. At March 31, 2012 and December 31, 2011, the deferred gain balance for these transactions was $410,268.

Risk Characteristics of Portfolio Segments

The Company manages its credit products and exposure to credit losses (credit risk) by the following specific portfolio segments (classes) which are levels at which the Company develops and documents its allowance for loan loss methodology. These segments are:

Commercial Real Estate

Commercial and other real estate projects include office buildings, retail locations, churches and other special purpose buildings. The Bank offers both fixed-rate and adjustable-rate loans under these product lines. The primary security on a commercial real estate loan is the real property and the leases that produce income for the real property. The Bank generally limits its exposure to a single borrower to 15% of the Bank's capital. Loans secured by commercial real estate are generally limited to 80% of the lower of the appraised value or sales price and have an initial contractual loan payment period ranging from three to twenty years.

Loans secured by commercial real estate are larger and involve greater risks than one-to-four family residential mortgage loans. Because payments on loans secured by such properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy.

Residential First Mortgages

Residential first mortgage loans made by the Bank are generally long term loans, amortized on a monthly basis, with principal and interest due each month. The initial contractual loan payment period for residential loans typically ranges from ten to 30 years. The Bank's experience indicates that real estate loans remain outstanding for significantly shorter time periods than their contractual terms. Borrowers may refinance or prepay loans at their option, without penalty. The Bank originates both fixed-rate and adjustable-rate residential first mortgages.

The annual and lifetime limitations on interest rate adjustments may limit the increases in interest rates on these loans. There are also unquantifiable credit risks resulting from potential increased costs to the borrower as a result of repricing of adjustable-rate mortgage loans. During periods of rising interest rates, the risk of default on adjustable-rate mortgage loans may increase due to the upward adjustment of interest cost to the borrower.

Construction and Land Development

The Bank offers loans for the construction of one-to-four family dwellings. Generally, these loans are secured by the real estate under construction as well as by guarantees of the principals involved. In addition, the Bank offers loans to acquire and develop land, as well as loans on undeveloped, subdivided lots for home building by individuals.

A decline in demand for new housing might adversely affect the ability of borrowers to repay these loans. Construction and land development loans are inherently riskier than providing financing on owner-occupied real estate. The Bank’s risk of loss is affected by the accuracy of the initial estimate of the market value of the completed project as well as the accuracy of the cost estimates made to complete the project. In addition, the volatility of the real estate market has made it increasingly difficult to ensure that the valuation of land associated with these loans is accurate. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the development. If the estimate of value proves to be inaccurate, a project’s value might be insufficient to assure full repayment. As a result of these factors, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the project rather than the ability of the borrower or guarantor to repay principal and interest. If the Bank forecloses on a project, there can be no assurance that the Bank will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

Home Equity and Second Mortgage Loans

The Bank maintains a portfolio of home equity and second mortgage loans. These products contain a higher risk of default than residential first mortgages as in the event of foreclosure, the first mortgage would need to be paid off prior to collection of the second mortgage. This risk has been heightened as the market value of residential property has declined.

Commercial Loans

The Bank offers commercial loans to its business customers. The Bank offers a variety of commercial loan products including term loans and lines of credit. Such loans are generally made for terms of five years or less. The Bank offers both fixed-rate and adjustable-rate loans under these product lines. When making commercial business loans, the Bank considers the financial condition of the borrower, the borrower’s payment history of both corporate and personal debt, the projected cash flows of the business, the viability of the industry in which the consumer operates, the value of the collateral, and the borrower’s ability to service the debt from income. These loans are primarily secured by equipment, real property, accounts receivable, or other security as determined by the Bank.

Commercial loans are made on the basis of the borrower's ability to make repayment from the cash flows of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself.

Consumer Loans

The Bank has developed a number of programs to serve the needs of its customers with primary emphasis upon loans secured by automobiles, boats, recreational vehicles and trucks. The Bank also makes home improvement loans and offers both secured and unsecured personal lines of credit. Consumer loans entail greater risk from other loan types due to being secured by rapidly depreciating assets or the reliance on the borrower's continuing financial stability.

Commercial Equipment Loans

These loans consist primarily of fixed-rate, short-term loans collateralized by a commercial customer's equipment. When making commercial equipment loans, the Bank considers the same factors it considers when underwriting a commercial business loan. Commercial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. In the case of business failure, collateral would need to be liquidated to provide repayment for the loan. In many cases, the highly specialized nature of collateral equipment would make full recovery from the sale of collateral problematic.

Allowance for Loan Losses

The following table details activity in the allowance for loan losses and loan receivable balances for the three months ended March 31, 2012 and March 31, 2011, respectively, and the year ended December 31, 2011. An allocation of the allowance to one category of loans does not prevent the Company's ability to utilize the allowance to absorb losses in a different category. The loan receivables are disaggregated on the basis of the Company's impairment methodology.

At March 31, 2012	Commercial Real Estate	Residential First Mortgage	Construction and Land Development	Home Equity and Second Mtg.	Commercial Loans	Consumer Loans	Commercial Equipment	Tot
Allowance for loan losses:								
Balance at January 1,	$2,525,199	$539,205	$354,385	$143,543	$3,850,294	$19,119	$223,296	$7,
Charge-offs	(36,452)	-	-	-	(43,349)	(985)	-	(8
Recoveries	-	-	-	-	469	-	-	46
Provisions	896,289	104,803	94,021	121,595	(1,014,365)	216	138,515	34
Balance at March 31,	$3,385,036	$644,008	$448,406	$265,138	$2,793,049	$18,350	$361,811	$7,
Ending balance: individually evaluated for impairment	$788,146	$113,000	$100,000	$89,540	$892,200	$-	$150,010	$2,
Ending balance: collectively evaluated for impairment	$2,596,890	$531,008	$348,406	$175,598	$1,900,849	$18,350	$211,801	$5,
Loan receivables:								
Ending balance	$387,062,534	$171,910,733	$36,254,152	$23,455,588	$93,410,257	$960,745	$18,567,449	$73
Ending balance: individually evaluated for impairment	$39,662,243	$5,725,407	$10,915,597	$463,601	$18,451,306	$74,928	$237,977	$75
Ending balance: collectively evaluated for impairment	$347,400,291	$166,185,326	$25,338,555	$22,991,987	$74,958,951	$885,817	$18,329,472	$65

At December 31, 2011	Commercial Real Estate	Residential First Mortgage	Construction and Land Development	Home Equity and Second Mtg.	Commercial Loans	Consumer Loans	Commercia Equipment
Allowance for loan losses:							

Balance at January 1,	$3,313,983	$204,073	$1,266,625	$97,519	$2,552,039	$32,209	$202,699
Charge-offs	(1,249,038)	(49,002)	(213,007)	-	(2,441,076)	(3,000)	(150,005
Recoveries	-	967	-	-	1,936	968	-
Provisions	460,254	383,167	(699,233)	46,024	3,737,395	(11,058)	170,602
Balance at December 31,	$2,525,199	$539,205	$354,385	$143,543	$3,850,294	$19,119	$223,296
Ending balance: individually evaluated for impairment	$423,093	$113,000	$100,000	$42,340	$1,318,502	$-	$-
Ending balance: collectively evaluated for impairment	$2,102,106	$426,205	$254,385	$101,203	$2,531,792	$19,119	$223,296
Loan receivables:							
Ending balance	$370,383,885	$164,543,309	$36,744,865	$24,138,324	$101,968,056	$1,000,983	$19,760,75
Ending balance: individually evaluated for impairment	$31,166,090	$5,849,538	$9,057,433	$492,319	$23,896,287	$82,036	$371,936
Ending balance: collectively evaluated for impairment	$339,217,795	$158,693,771	$27,687,432	$23,646,005	$78,071,769	$918,947	$19,388,81

At March 31, 2011	Commercial Real Estate	Residential First Mortgage	Construction and Land Development	Home Equity and Second Mtg.	Commercial Loans	Consumer Loans	Commercial Equipment	T
Allowance for loan losses:								
Balance at January 1,	$3,313,983	$204,073	$1,266,625	$97,519	$2,552,039	$32,209	$202,699	$
Charge-offs	(515,049)	(49,005)	(213,020)	-	(1,568,150)	(1,000)	(48,005)	
Recoveries	-	-	-	-	-	1,029	-	
Provisions	576,468	190,867	(83,322)	(2,064)	1,328,925	(3,785)	(1,259)	
Balance at March 31,	$3,375,402	$345,935	$970,283	$95,455	$2,312,814	$28,453	$153,435	$
Ending balance: individually evaluated for impairment	$514,829	$-	$-	$-	$1,375,209	$-	$-	$
Ending balance: collectively evaluated for impairment	$2,860,573	$345,935	$970,283	$95,455	$937,605	$28,453	$153,435	$
Loan receivables:								
Ending balance	$343,071,081	$144,139,698	$36,204,608	$23,863,632	$89,365,928	$1,185,542	$17,841,327	$
Ending balance: individually evaluated for impairment	$23,683,685	$4,773,045	$5,952,586	$359,050	$18,242,080	$154,821	$345,673	$
Ending balance: collectively evaluated for impairment	$319,387,396	$139,366,653	$30,252,022	$23,504,582	$71,123,848	$1,030,721	$17,495,654	$

Non-accrual and Past Due Loans

Loans are reviewed on a regular basis and are placed on non-accrual status when, in the opinion of management, the collection of additional interest is doubtful. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. There were no accruing loans 90 days or greater past due at March 31, 2012 and December 31, 2011, respectively. Consumer loans are typically charged-off no later than 90 days past due. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Non-accrual loans are evaluated for impairment on a loan by loan basis in accordance with the Company’s impairment methodology.

All interest accrued but not collected from loans that are placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. Non-accrual loans as of March 31, 2012 and December 31, 2011 were as follows:

March 31, 2012		December 31, 2011	
Dollars	Number of Loans	Dollars	Number of Loans